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9
10 **IN THE UNITED STATES BANKRUPTCY COURT**
11 **FOR THE DISTRICT OF ARIZONA**
12

13 In re:

14 CLEAR ENERGY SYSTEMS, INC.,

15 Debtor.

16 In Proceedings Under Chapter 11

17 Case No.: 2:14-bk-12716-BKM

18 **FIRST AMENDED DISCLOSURE STATEMENT IN SUPPORT OF**
19 **PLAN OF REORGANIZATION**
20 **OF DEBTOR CLEAR ENERGY SYSTEMS, INC.**

21 **DATED JULY 7, 2015**
22
23
24
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26

1 **I. INTRODUCTION.**

2 **A. Purpose Of Disclosure Statement.**

3
4 CLEAR ENERGY SYSTEMS, INC. ("CES" or the "Debtor"), which is the debtor and
5 debtor-in-possession in the above-captioned Chapter 11 case (the "Debtor"), is providing this
6 First Amended Disclosure Statement (the "Disclosure Statement") to all of its known creditors
7 and equity security holders, pursuant to 11 U.S.C. § 1125, in order to permit them to make an
8 informed judgment in exercising their right to vote on the First Amended Plan of
9 Reorganization of Debtor CLEAR ENERGY SYSTEMS, INC., dated July 7, 2015 (the "Plan"),
as described below. All capitalized terms used, but not defined, in this Disclosure Statement
have the meanings ascribed to such terms in the Plan, a copy of which is attached as **Exhibit**
A to this Disclosure Statement and incorporated herein by reference.

10 **B. Source Of Information.**

11 The information contained herein has been compiled from records of the Debtor and
12 projections have been prepared by Debtor's board of directors and consultants.

13 **C. Disclaimers.**

14 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS
15 PROVIDED FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN OF
16 REORGANIZATION OF THE DEBTOR AND MAY NOT BE RELIED UPON FOR
17 ANY PURPOSE OTHER THAN TO DECIDE HOW TO VOTE ON THE PLAN. NO
18 PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS,
OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN
THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE
SOLICITATION OF ACCEPTANCES OF THE PLAN.

19
20 ALL HOLDERS OF CLAIMS OR INTERESTS IN THE DEBTOR ARE
21 ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN
22 THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN
23 SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE
24 QUALIFIED BY THE PLAN AND THE EXHIBITS ATTACHED TO THE PLAN. THE
25 STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE
26 ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT
THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT IN THE FUTURE.
IN THE EVENT OF ANY CONFLICT BETWEEN THE DESCRIPTIONS SET FORTH
IN THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN, THE TERMS
OF THE PLAN SHALL GOVERN.

1 THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE
2 WITH BANKRUPTCY CODE § 1125 AND BANKRUPTCY RULE 3016(b) AND NOT
3 NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS
4 OR OTHER NON-BANKRUPTCY LAW. THIS DISCLOSURE STATEMENT HAS
5 BEEN NEITHER APPROVED NOR DISAPPROVED BY THE SECURITIES AND
6 EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE
7 ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

8 THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE
9 CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY RAISED IN ANY
10 CONTESTED MATTER, ADVERSARY PROCEEDING, OR OTHER ACTION, OR AS
11 A STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN
12 SETTLEMENT NEGOTIATION. THIS DISCLOSURE STATEMENT SHALL NOT BE
13 ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE
14 CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR
15 OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST,
16 OR EQUITY INTERESTS IN, THE DEBTOR.

12 II. OVERVIEW AND PRE-PETITION HISTORY OF THE DEBTOR.

13 The Debtor is headquartered in Tempe, Arizona (the "Premises"). Its business model
14 is designing, updating and developing a radial engine based on the R-1820 engines that powered
15 many US aircraft and helicopters from the 1930s to the 1950s. The new engine will be fueled
16 by gasoline or gaseous fuel, such as methane, natural gas or propane. Adopting modern design
17 practices and materials, the engine has the potential of developing 1500bhp with good durability
18 at low cost from a modestly sized engine package. It has potential use across a plethora of
19 military, industrial and commercial applications.

20 Debtor is a Nevada corporation formed on May 17, 2002. It registered to do business
21 in Arizona on June 20, 2003. Since inception it has raised and spent approximately forty million
22 dollars (\$40,000,000.00) on engine development.

23 The engine has gone through three iterations during development. Originally, Debtor
24 was formed to purchase intellectual property that would allow a WWII era engine to operate
25 with water injection. Injecting water into the engine during combustion significantly increases
26 the specific output for a given engine size, resulting in a smaller and lighter engine.

As the water injection concept was developed over the first four years, management
decided that modifying WWII era engines would result in limited marketability compared with
a complete engine redesign utilizing modern materials and engine design practice. A new CEO,
Anthony Carmen, an experienced engineer whose business was overseeing the design and

1 sourcing (typically in China) of automobile engine parts for the domestic auto industry, notably
2 General Motors Corporation, was hired.

3 Mr. Carmen undertook the entire redesign of every part and component in the engine.
4 It took about four years to create a new engine prototype. The goal of the engine is initially to
5 power a mobile one megawatt (1MW) class “gen set” that will have the engine, ancillaries,
6 electronic controls and electric generator within a mobile, sound-attenuated housing. The unit
7 will be about fifteen (15) feet long and weigh about sixteen thousand (16,000) pounds. It can
8 be pulled by a pick-up truck and navigated into tight spaces. Although there are competing gen
9 sets made by major manufacturing concerns such as Cummins Engine and Caterpillar, CES
10 estimates a competing system with options equal to those CES intends to offer as standard
11 would require a tractor-trailer set up to make it mobile. The trailer would be about forty (40)
12 feet long and weigh close to fifty thousand (50,000) pounds. A tractor would be needed to move
13 it due to the weight.

14 The CES gen set would cost less and burn less fuel, so it would be cheaper to run –
15 measured in the industry as fewer cents per kilowatt hour. It will also be much cheaper to
16 maintain. A full overhaul of a Caterpillar gen set requires moving it to a Caterpillar dealership
17 and can take as long as three (3) months. An overhaul of CES’s gen set would mean pulling
18 out the engine and rebuilding it on site within a day or two. A customer could rent a replacement
19 engine from CES while its engine is overhauled and literally have no down time.

20 During the redesign of the engine, several companies sought distributorships for the
21 pending gen sets. Distributorship agreements were signed for Canada, Mexico and New
22 Zealand with an entity known as GASGen Canada and for a number of European countries
23 with SARN Power LLC. Interest was expressed for distributorships in the Arab Countries and
24 Asia.

25 About the time the new prototype was up and running, funding the completion of the
26 design and implementation of production became problematic. It was estimated to take
fourteen (14) months and another eight to ten million dollars (\$8-10,000,000.00). CES’ Eastern
European distributor, SARN Power LLC and SARN Industrial LLC (collectively “SARN”),
agreed to provide up to ten million dollars (\$10,000,000.00) in financing in return for a
controlling interest in the Debtor. An agreement was reached at the end of 2013 whereby
SARN would incrementally inject cash into CES in segments of one million five hundred
thousand dollars (\$1,500,000.00) at a time. As part of the agreement SARN took control of the
board effective January 2014.

27 In April 2014, after only three (3) months of management and one segment of capital
28 infusion, SARN shut down CES without notice. All employees were terminated, the facilities
29 were closed and assets were removed from the Premises. Despite the forty million dollars
30 (\$40,000,000.00) that had been invested in the development of the gen set, SARN walked away

1 and gave none of the other CES shareholders (the “Shareholders”) notice of their abandonment
2 of the project.

3 In light of the lack of communication, none of the Shareholders were aware of the
4 abandonment and resulting defaults that occurred due to lack of payments to vendors, landlords
5 and other suppliers. Once information was obtained regarding the shutdown of the operations,
6 garnering information was difficult as SARN had possession and control of the business records
7 of CES, precluding any effective analysis as to the ongoing obligations or pending defaults.

8 However, a number of individual Shareholders gathered to address their significant
9 investment in CES and the impending risk of loss of the entire operation and decided to take
10 action.

11 In conjunction with shutting down the business, SARN disposed of assets and ceased
12 making payments to creditors. Various equipment lessors took possession of their equipment
13 and the landlord issued a default under the lease for the Premises. The landlord later terminated
14 the Debtor’s right to possession to the Premises and eventually noticed a sale of the personal
15 property located in the Premises to satisfy the amounts owing to it.

16 After closing down the business, the SARN representatives on the board of directors of
17 CES refused to resign without obtaining a release from CES. In order to protect the remaining
18 assets of CES, the SARN representatives on the board were provided with releases upon
19 resigning. While SARN retained its stock in CES, the parties agreed that the SARN
20 distributorship agreement would be cancelled. Debtor and its counsel are reviewing the
21 transaction and conduct of SARN to determine the existence of any claims and enforceability
22 of the release of the SARN representative board members.

23 The board of directors (“Board”) was reconstituted after SARN’s withdrawal and the
24 Board determined that the only means to protect the tens of millions invested in the project
25 was to file a bankruptcy petition to stay any further creditor actions and to raise funds in order
26 to pay ongoing expenses while new investors are located to complete the final stages of
development and production of the gen set.

Prior to the bankruptcy filing, one of the shareholders of CES made demand on the
D&O policy maintained by CES. The filing of the bankruptcy petition stayed that from
proceeding and the parties are currently negotiating relief from stay to allow that claim to
proceed against the insurer.

On August 15, 2014 (the “Petition Date”), the Debtor sought the benefits of the
Bankruptcy Code to protect its property and creditors and preserve the value of its business
through a restructuring of its liabilities. The Debtor believes that its proposed Plan will offer

1 the most meaningful opportunity for recovery for all creditors and parties in interest in this
2 Chapter 11 Case.

3 **III. POST-PETITION ACTIVITIES AND OPERATIONS.**

4 **A. Business Operations.**

5 Since its Chapter 11 filing, the Debtor has regained access to the Premises and business
6 records. While the primary focus of the Debtor has been to gather the information needed to
7 solicit a new major investor or group of investors (collectively, the “Investor”) and obtain
8 current funding to maintain the Debtor pending its search, the Debtor is also exploring what
9 happened to the various items that were disposed of by SARN, and the Debtor continues to
10 explore the records for information regarding those items. To the extent Debtor establishes
11 that any property was not properly handled by SARN, it may pursue claims for relief. The
12 Debtor has also assembled the necessary consultants to gather all of the engineering and
13 manufacturing information and financial analysis to present to potential new Investors to infuse
14 sufficient capital that would enable the further development of the technology.

15 The Debtor has approved employment applications for the following professionals:
16 Freeman Huber Law, PLLC, as general bankruptcy and restructuring counsel; Sarvas, Coleman,
17 Edgell & Tobin, PC, as special accountants; Bejin Bienemen PLC, as special IP counsel; BDO
18 USA, LLP, as ordinary course accountants for tax return preparation; and Paul A. Conant of
19 Conant Law Firm, PLC, as special counsel to assist with independent contractor issues.

20 The Board sought funding for bankruptcy related expenses from the existing
21 Shareholders as well as Debenture Holders and Bridge Lenders (defined below). Many of the
22 Debenture Holders and Bridge Lenders are Shareholders of the Debtor. Given the risk that
23 the post-petition funds would not be recovered if the Debtor is not successful in locating new
24 investor(s) to fund the reorganization, a number of Shareholders agreed to provide post-petition
25 unsecured credit to the Debtor to provide funds to pay post-petition expenses while a search is
26 made for the additional capital needed to preserve the value developed over the past decade
and millions invested to date. While the various opportunities to provide post-petition credit
were made available to all Shareholders, Debenture Holders and Bridge Lenders, not all
participated. Those that did participate (the “PPLs”) have provided post-petition unsecured
funding to the Debtor in the initial amount of one hundred thousand dollars (\$100,000.00), the
“First Tranche”; one hundred thousand dollars (\$100,000.00) through a second round of
unsecured financing, the “Second Tranche”; and four hundred thousand dollars (\$400,000.00)
through a third funding, the “Third Tranche”. A “Fourth Tranche” is in process of being
raised in the amount of \$200,000.

27 The success of the project depends upon having the ability to demonstrate the gen set
28 to potential Investors and show them the generator in operation. Currently, the Premises are
set up to allow the operation of the generator due to significant improvements that were made

1 when CES first moved into the Premises. These include an oversize natural gas line, water
2 towers and other related equipment, all of which are essential to Debtor's ability to operate the
3 generator. The cost to duplicate these critical elements at another location would exceed three
hundred fifty thousand to four hundred thousand dollars (\$350,000-\$400,000.00).

4 Given the critical nature of continuing operation of the Debtor's business on the
5 Premises, and the existence of a pre-petition default caused by SARN's departure without
6 notice, the Debtor was required to seek turnover of possession of the Premises and provide
7 adequate protection for the ongoing rent payments. After successfully regaining access to the
8 Premises, Debtor was then faced with the need for an extension of the Premise's lease (the
9 "Lease") that was set to expire on January 31, 2015. The Debtor and the landlord (the
10 "Landlord") of the Premises agreed to extend the Lease by six months, which extended the
11 Lease until July 31, 2015, subject to various conditions imposed by the Landlord. Given the
12 requirements of the Landlord, the Debtor was required to seek additional unsecured credit via
13 the Second and Third Tranches to fulfill the Lease extension requirements. Since the
14 reorganization efforts have taken additional time, the Debtor has requested an additional
15 extension of the Lease through and including January 31, 2016. The Landlord has agreed to
16 provide the extension, subject to prepayment of rent (\$62,874.00 for the extension period) and
17 expected operating expenses of \$21,383.16, along with certain other conditions. As part of the
18 extension, one of the directors/shareholders of the Debtor, Mr. Jack Rasor, has agreed to
19 individually use his personal funds to provide the Landlord with the security deposit in the
20 amount of \$112,889.00. The funds will remain the property of Mr. Rasor, subject to Landlord's
21 rights and remedies to the security deposit and the Debtor will have no claim to those funds
22 upon the release of some or all of them by the Landlord. In return, the Landlord will apply the
23 existing security deposit to the new rent and expenses under the extended Lease and return the
24 surplus funds to the Debtor for its use with the reorganization process. The Debtor is filing a
25 motion to seek approval of the Lease extension concurrently with the filing of the Disclosure
26 Statement.

Debtor has also engaged various prior employees familiar with the Debtor's operation
as independent contractors to assist with the process of presenting the prototype and financial
information to Investor(s) and to assist in the completion of the project.

B. Reorganization Approach.

The Debtor undertook efforts to gather all relevant information to compile a package
sufficient to present to potential Investors. Based upon the analysis performed, Debtor
estimates that additional capital in the range of \$12,000,000 to \$18,000,000 will be needed to
take the development of the prototype from its current status through the various stages of
finalizing the design, constructing initial beta versions, and completing testing and manufacture
of the units for the marketplace.

1 The details of those steps, the costs involved and the timeframe for the infusion of funds
2 are set out in **Exhibit B**, attached hereto.

3 While the Debtor has been having preliminary conversations with various potential
4 investors and/or end users, the final materials to present to potential Investors have only
5 recently been completed. Accordingly, efforts to formally interact with potential Investors have
6 only recently begun. However, the most likely exit strategy is to find new Investor(s) that will
7 infuse sufficient capital so that the development and production of the gen set can continue
8 and implement a business strategy for the sale of the units.

9 Based upon the projections compiled by Debtor's consultants and reviewed by the
10 Board, the successful implementation of the current technology into marketable gen sets could
11 result in significant long-term operating profits. The projections, attached hereto as **Exhibit**
12 **C**, demonstrate potential sales in North America of in excess of one hundred million dollars
13 (\$100,000,000.00) per year. The timeframe to reach this level spans several years to account for
14 the remaining development, testing and marketing, so there is no immediate return; however,
15 Debtor believes that there is a reasonable likelihood that these sales levels can be achieved and
16 with time, sufficient funds can be recovered by the Debtor to satisfy its creditors in full and
17 return funds to the Shareholders who have participated in the development of this product over
18 the past thirteen (13) years.

19 In order to attract potential Investors, Debtor proposes to create a new entity that would
20 act as reorganized debtor which will be initially proposed as a limited liability company
21 ("RDLLC"). In return for the assignment by Debtor of its IP Technology, prototype and
22 related business assets (excluding Causes of Action) to RDLLC, Debtor would receive a
23 membership interest in RDLLC. The new Investor(s) would contribute their funds to RDLLC
24 in return for a majority interest in RDLLC. The PPLs who provided the unsecured post-
25 petition credit will be provided the opportunity to convert their post-petition claims into
26 membership interests in RDLLC. The Debtor would continue in existence for purposes of
receiving membership distributions from RDLLC and making payments to Debtor's creditors
and potentially making distributions to its Shareholders.

The Debtor has also been in negotiations with its consultants to offer options to acquire
an interest in RDLLC in return for their respective efforts in a successful transition to RDLLC.

Under the Plan, RDLLC will assume the obligations of the Arizona Commerce
Authority (as detailed below), which holds a priority security interest in the IP Technology, and
Debtor would be released from that obligation.

Distributions from RDLLC would be made pro-rata to the respective members. The
funds distributed to Debtor would first be used to pay any current operating expenses, then any

1 unpaid post-petition expenses and, once those obligations are satisfied, the funds would then
2 flow to Debtor's creditors until paid in full and then to the Shareholders.

3 As a result of the PPLs converting into equity in RDLLC and releasing CES of any
4 obligations with respect to the post-petition unsecured credit, and the assumption of the
5 Arizona Credit Authority obligation by RDLLC, significant obligations will be removed from
6 the Debtor; therefore, the other creditors of the Debtor will receive the benefit of distributions
7 to the Debtor from RDLLC more expeditiously. Based upon the sales projections in **Exhibit**
8 **C**, the value to the Debtor's creditors and Shareholders could conservatively exceed
9 \$50,000,000.00 in approximately five years.

10 A recent market analysis performed for the Debtor reflects several applications for the
11 Debtor's product. Those include supporting service companies, remote power generation and
12 emergency power needs. These sectors are estimated to provide sales opportunities of 3,500
13 units annually, with longer term growth to continue thereafter.

14 Absent the successful reorganization of Debtor, other than a secured creditor potentially
15 obtaining a partial recovery, all creditors and Shareholders will receive no recovery at all.

16 The Debtor will provide a proposed operating agreement for RDLLC as part of the
17 negotiation with the potential Investor(s).

18 All Causes of Action owned by the Debtor and/or Estate will be retained by the Debtor.
19 The Debtor proposes that the existing Board remain in place post-confirmation to be
20 responsible for managing the Debtor post-confirmation and for pursuing certain of the
21 Debtor's Causes of Action.

22 **IV. STATEMENT OF ASSETS AND LIABILITIES.**

23 The Debtor's primary assets are identified in its Schedules and Statement of Financial
24 Affairs filed in the Bankruptcy Case on September 9, 2014, Docket No. 29:

25 (1) Intellectual property and technology (collectively the "IP Technology") consisting of
26 certain patent rights and pending patent rights. The Debtor has retained professionals to
evaluate the IP Technology and will be seeking to retain a valuation expert to value those rights.
Based upon the current status of the Debtor and the IP Technology, the Debtor estimates that
the IP Technology will have an as is value significantly less than the secured claim of Arizona
Commerce Authority.

(2) Personal property consisting of various tool and dyes, generators and other shop
equipment. The book value carried on Debtor's books and records reflects a total of
\$577,037.53. However, the vast majority of the items are either not in Debtor's possession, are

1 obsolete or have little to no market value. Many of the items were contracted for but still remain
2 with the manufacturers, in many instances in China. The cost to recover the items would likely
3 exceed the value that could be obtained if the items were sold. The Debtor estimates that the
current actual value of the personal property is estimated at approximately \$65,000.00

4 (3) Debtor's interest, as Tenant, in property located at the Premises. Debtor has also
5 posted a security deposit as required by the Landlord in the sum of \$112,889.00.

6 The Debtor's largest secured creditor is Arizona Commerce Authority ("ACA"). As of
7 the Petition Date, the Debtor owed ACA one million dollars (\$1,000,000.00). ACA's claim is
8 secured by the Debtor's IP Technology. Additionally, the Debtor has identified other secured
9 creditors that may potentially hold secured claims. The Bank of New York Mellon is the
10 representative of the Debenture Holders. The Debenture Holders were granted a blanket
11 security interest in the assets of the Debtor; however, the security interest was subordinated to
12 the lien of the ACA in the IP Technology. Accordingly, due to the minimal value of the personal
property and the fact that the ACA has the priority lien on the IP Technology, it is unclear
whether the Debenture Holders have any collateral value securing their claim. The Debtor
believes that all other equipment lessors regained possession of their equipment and there are
no additional secured claims beyond those described above.

13 Debtor has obtained post-petition unsecured credit from the PPLs totaling
14 approximately six hundred thousand dollars (\$600,000.00), and is presently obtaining an Fourth
15 Tranche of an additional two hundred thousand dollars in funding and will likely be seeking
additional funding prior to confirmation of the Plan.

16 As of the Petition Date, the Debtor has various unsecured creditors. The Debtor owes
17 unsecured claims to a group referenced as Bridge Lenders in the amount of nine hundred two
18 thousand five hundred dollars (\$902,500.00) and, to the extent the Debenture Holders are
19 unsecured, they hold a claim in the amount of two million seven hundred twenty thousand
dollars (\$2,720,000.00).

20 In addition, Debtor has scheduled various trade and other unsecured creditors of
21 approximately \$763,000. When combined with the Debenture Holders and Bridge Lenders, it
results in total unsecured claims of approximately \$4,385,500.

22 Debtor has two potential executory contracts. As described above, Debtor entered into
23 two distributorship agreements with SARN and GasGen. While the Debtor believes the SARN
24 agreement has been cancelled, it will evaluate the GasGen agreement in conjunction with the
new Investor regarding whether to assume or reject the agreement.

25 **V. DESCRIPTION OF THE PLAN.**
26

1 The following is a summary of certain significant provisions of the Plan. This summary
2 is qualified in its entirety by reference to the more detailed information set forth in the Plan.
3 This Disclosure Statement, together with the Plan, which is attached hereto as **Exhibit A**,
4 should be read completely. The Plan, if confirmed, will be binding upon the Debtor, its
5 creditors and the holders of equity Interests.

6 **A. Administrative Claims and Priority Tax Claims.**

7 As provided in Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and
8 Priority Tax Claims are not to be classified for purposes of voting on, or receiving distributions
9 under, the Plan.

10 **1. Treatment of Administrative Claims.**

11 a. **General Administrative Claims.** The holder of an Allowed Administrative
12 Claim will be paid, in full satisfaction of such Claim: (a) a single Cash payment in the
13 Allowed amount of the Claim on the Effective Date; (b) payment in the ordinary course
14 of business as said Claim matures; or (c) payment upon such other less favorable terms
15 as may be agreed upon in writing by the holder of such Claim and the Debtor, or as
16 ordered by the Bankruptcy Court.

17 b. **Post-Petition Lenders.** The PPLs that provided unsecured credit to the
18 Debtor hold promissory notes that have various maturity dates and accrue interest at
19 the rate of ten percent (10%) per month. The holders of each note will be paid as
20 follows: (1) if the holder of a post-petition promissory note does not elect to convert to
21 an equity interest in RDLLC, the maturity date of each note shall be modified to be
22 upon the receipt by Debtor of distributions from RDLLC. The holders of such note(s)
23 shall be paid from the distributions received by Debtor from RDLLC and shall be
24 entitled to be paid in full with all accrued interest before distribution of said funds to
25 any other pre-petition creditors of Debtor; or (2) the holders may elect to convert the
26 note(s) into a membership interest in RDLLC. The amount of membership interest
shall be allocated pro-rata for all holders of such notes in such amount as is negotiated
with the new Investor in RDLLC. The effect of such election shall be a full satisfaction
and release of Debtor from any payment obligation under such note(s) and the holders
will have no further right to recover payment except in the form of distributions from
RDLLC as a member.

27 **2. Deadline for Filing Claims for Administrative Expenses.**

28 With the exception of applications for compensation and reimbursement filed by the
29 Debtor's Professionals, which applications shall be filed no later than sixty (60) days after the
Effective Date, all requests for payment of Administrative Claims shall be filed by the *earlier* of:

(i) thirty (30) days after the date of service of notice of the Effective Date, *or* (ii) any applicable Bar Date established by the Bankruptcy Court and noticed separately by the Debtor. If Administrative Claims are not timely filed in accordance with this Plan, they will be forever barred and will not be assertable in any manner against the Debtor or the Estate; *provided, however,* that no such request for payment shall be required with respect to Administrative Claims that have been paid previously or with respect to Administrative Claims for expenses incurred in the ordinary course of business, including without limitation the claims of the PPLs, unless a dispute exists as to any such expenses, or unless the provisions of the Bankruptcy Code require approval or allowance by the Bankruptcy Court as a precondition to payments being made on any such expense.

3. Treatment of Priority Tax Claims.

Each holder of an Allowed Priority Tax Claim will be paid, consistent with § 1129(a)(9)(C) of the Bankruptcy Code and in full satisfaction of such holder's Priority Tax Claim: (i) the amount of such holder's Priority Tax Claim, with simple interest at the rate of six percent (6%) per annum (or such other rate as the Bankruptcy Court may determine at the Confirmation Hearing is appropriate), in deferred Cash payments over a period of six (6) years from the date of assessment, to be paid in equal quarterly installments of principal and interest from the Debtor, provided that: (a) the Debtor may prepay the balance of any such Priority Tax Claim at any time without penalty; and (b) the treatment of Priority Tax Claims shall not be less favorable than the most favored nonpriority unsecured claim provided for by the Plan; or (ii) such other treatment as may be agreed upon in writing by such holder and the Debtor, as appropriate or ordered by the Bankruptcy Court. The Debtor believes that there are no Priority Tax Claims.

B. Classification and Treatment of Claims and Interests.

For purposes of voting, distributions, and all confirmation matters, except as otherwise provided herein, all Allowed Claims and Interests shall be classified and treated as follows:

(a) Class 1: Priority Non-Tax Claims. Each holder of a Priority Non-Tax Claim that is an Allowed Claim shall be unimpaired under the Plan and, pursuant to Section 1124 of the Bankruptcy Code, all of the legal, equitable and contractual rights of each holder of a Priority Non-Tax Claim that is an Allowed Claim in respect of such Claim shall be fully reinstated and retained as though the Chapter 11 Case had not been filed. Holders of Allowed Priority Non-Tax Claims shall not be entitled to vote on the Plan and, instead, shall be deemed to have accepted the Plan. The Debtor does not believe that there are any holders of Class 1 Priority Non-Tax Claims and that this Class will, therefore, be deleted from the Plan.

(b) Class 2: Arizona Commerce Authority Claim. This Class shall consist of the Secured Claim of ACA in the principal amount of one million dollars (\$1,000,000.00), plus any accrued unpaid interest at the contract rate of three percent (3%), which is all secured by a first priority lien on the Debtor's IP Technology. The Debtor believes that the aggregate value of the IP Technology is less than the amount of ACA's secured claim. Except as otherwise provided in this Plan, ACA shall retain its lien on the IP Technology, unless the holder of the Class 2 ACA Claim agrees to a different treatment.

The obligations owing to ACA shall be assumed by RDLLC and shall be modified as follows: Pursuant to the Grant and Conditionally Forgivable Loan and Security Agreement ("Loan Agreement") between ACA and Debtor, the Loan: (i) has a maturity date of November 10, 2016; (ii) accrues interest at the rate of three percent (3%) per annum; and (iii) has incentive provisions that result in a potential forgiveness of the obligation in the event Debtor creates a certain number of jobs and maintains them.

Under the Plan, the terms of the Loan Agreement and all related documents would be modified as follows:

- A. The Maturity Date would be extended by two (2) years to November 10, 2018;
- B. The date from when the jobs must be maintained will be continued from January 1, 2015 to January 1, 2017; and
- C. Such other amendments as needed to confirm the assumption of all obligations by RDLLC, the assignment of the IP Technology from the Debtor to RDLLC, and the continued perfection of the ACA lien.
- D. Notwithstanding any valuation of the IP Technology that may be less than the full amount of the ACA Claim, the full amount of the ACA Claim shall be assumed by RDLLC and the claim shall be payable according to its terms, as modified herein.

Upon the assumption by RDLLC, ACA will release any claims against Debtor.

The Class 2 Claim is **impaired** under the Plan.

(c) Class 3: Debenture Holders. This Class shall consist of the Class 3 Claims of the debenture holders (the "Debenture Holder Claims") who are parties to the 12% Secured Convertible Debenture Agreement dated November 15, 2010 (the "Debenture"), in the amount of approximately two million seven hundred twenty thousand dollars (\$2,720,000.00). A list of the Debenture Holders is attached hereto as **Exhibit D**. To the extent that the Debenture Holders hold any security for their claim, the secured portion of their claim will be paid as follows: Within sixty (60) days after the Effective Date, the Class 3 Claims shall receive either: (i) a cash payment for the actual

1 value of all or a portion of the collateral acquired by RDLLC; or (ii) access to take
2 possession of the collateral along with an assignment from the Debtor of its interest in
3 any items of personal property collateral that are not located at the Premises and/or in
4 Debtor's possession, the transfer of which shall constitute full satisfaction of the Class
5 3 secured claim.

6 Pursuant to the terms of the Debenture, the obligations owing by the Debtor to
7 the Debenture Holders are subordinated to the right of payment of Permitted
8 Indebtedness (as defined therein). Permitted Indebtedness is defined in the Debenture
9 as follows:

10 "1.1.64 "Permitted Indebtedness" means the
11 principal amount of and the interest and premium, if any, on and
12 fees and costs relating to: (i) Indebtedness of the Company (other
13 than Indebtedness evidenced by the Debentures), whether
14 outstanding on the date of this Indenture or hereafter created,
15 incurred, assumed or guaranteed, for money borrowed by the
16 Company (including, without limitation, by means of term loans,
17 operating loans, working capital loans, acceptances, debt
18 instruments and any liability evidenced by bonds, debentures,
19 notes or similar instruments or pursuant to or otherwise resulting
20 from foreign exchange, currency exchange, hedging, monetization,
21 swaps and similar money management arrangements); and (ii)
22 renewals, extensions or refundings of any Indebtedness referred to
23 in (i) of this definition, unless in any case it is provided by the terms
24 of the instrument creating or evidencing such Indebtedness or
25 pursuant to which such Indebtedness is outstanding that such
26 Indebtedness does not rank prior in right of payment to, or *pari*
passu with, the Debentures but subordinate in right of payment to,
the Debentures;"

Pursuant to this definition, the obligations owing to the Bridge Lenders in Class
4 constitute a Permitted Indebtedness; accordingly, pursuant to this subordination
provision, the Debenture Holder Claims will not receive any distribution unless and
until the Bridge Loan Holders are paid in full.

Based upon the fact that the Bridge Lender Claims must share pro-rata with the
Debtor's other unsecured creditors, the Bridge Lender Claims will not be paid in full
until all Class 5 Unsecured Claims are also paid in full. As a result, upon payment in full
of the Class 4 and Class 5 Claims, all proceeds will then be applied toward the unsecured
portion of the Class 3 Debenture Holder Claims until paid in full.

1 The unsecured portion of the Debenture Holder's claim shall be paid after the
2 payment in full of the Bridge Lender Claims from the distributions received by the
3 Debtor from RDLLC, after payment in full of all higher priority claims. As a result of
4 the Bridge Lenders receiving pro-rata payments with Class 5, the Debenture Holder
5 claims will not receive distributions until the Bridge Lenders, and other unsecured
6 creditors, receive payment in full. Interest will accrue on the unsecured portion of the
7 Class 3 Claim until paid at the rate of 12% per annum pursuant to contract. There will
8 be no penalties for prepayment of all or part of the Debenture Holder Class 3 Claim.
9 The Class 3 Claim is **impaired** under the Plan.

10 (d) Class 4: Bridge Lenders. This Class shall consist of the unsecured claims
11 of the bridge lenders in the amount of approximately nine hundred two thousand five
12 hundred dollars (\$902,500.00). A list of the Bridge Lenders is attached as **Exhibit E**.
13 The Class 4 Bridge Lender claims are unsecured; however, pursuant to the
14 subordination provision in the Debenture referenced above, are entitled to payment
15 priority over the Debenture Holders. Accordingly, the Class 4 Bridge Lender Claims
16 will be paid pro-rata with the unsecured creditors of the Debtor in Class 5 from the
17 distributions received by the Debtor from RDLLC, after payment in full of all higher
18 priority claims. Interest will accrue on the Class 4 Claim until paid at the contract rate
19 in the respective Bridge Loans (ranging from 14% - 20 % per annum). The Class 4
20 Claim is **impaired**.

21 (e) Class 5: Unsecured Creditors. The Class 5 General Unsecured Claims
22 consist of every Unsecured Claim against the Debtor which is not an Administrative
23 Claim, a Priority Non-Tax Claim, a Priority Tax Claim, a Debenture Claim or a Bridge
24 Lender Claim. Interest will accrue on the General Unsecured Claims until paid at the
25 rate of 5% per annum. Holders of Allowed Unsecured Claims shall be paid pro-rata
26 with the Bridge Lender Claims in Class 4 from the distributions received by the Debtor
from RDLLC, after payment in full of all higher priority claims. The Class 5 General
Unsecured Claims are **impaired** under the Plan.

(f) Class 6: Interests. Class 6 Interests are the respective Shareholders of the
Debtor. The holders of Class 6 Interests will retain their respective ownership interest
in the Debtor based on the percentage of ownership held pre-petition, but only in the
event all classes of creditor claims are paid in full. The Interests which comprise the
Class 6 Interests are **impaired** under the Plan.

23 **C. Means of Execution.**

24 The Plan will be implemented upon entry of an Order by the Bankruptcy Court
25 confirming the Plan. Upon the Effective Date, or at such other time thereafter as specifically
26 provided for in the Plan, Creditors holding Allowed Claims will receive the treatment provided
for in the Plan. Creditors must hold Allowed Claims before they will be entitled to the

1 treatment provided in the Plan. The Plan will be funded from the distributions received by the
2 Debtor as a member of RDLLC.

3 **1. Board of Directors and Officers.**

4 The board of directors of the post-confirmation Debtor shall be comprised of the
5 existing Board. The identities, affiliations and the amount of compensation of the initial board
6 members and initial officers as of the Effective Date are included on **Exhibit F** attached hereto.
7 The selection of the persons who will serve as the initial directors, officers and managers of
8 RDLLC as of the Effective Date shall be deemed to have occurred and be effective on and
9 after the Effective Date without any requirement of further action by the Board. Any
10 successors to the Debtor's Board will be appointed in compliance with the applicable Debtor's
11 bylaws, articles of incorporation or other applicable corporate formation and governance
12 documents. In the event that the members of the Board of the Debtor cannot come to a
13 unanimous agreement on matters requiring Board approval, the Bankruptcy Court shall resolve
14 any such dispute.

15 **2. Debtor's Assets and Causes of Action.**

16 The Debtor's and Estate's Interest in the assets of the Debtor, excluding Causes of
17 Action and any personal property not purchased by RDLLC, shall be transferred to RDLLC
18 free and clear of all liens, rights, claims, contracts or restrictions with the sole exception of the
19 ACA lien, on the Effective Date in return for a membership interest in RDLLC. Causes of
20 Action will be retained in the Debtor and prosecuted for the benefit of the creditors and equity
21 holders of Debtor. Any personal property that is the collateral of Class 3 and not purchased by
22 RDLLC shall be relinquished to Class 3 in full satisfaction of its secured claim.

23 **3. Powers of Officers.**

24 The officers of the Debtor or RDLLC, as the case may be, shall have the power to enter
25 into or execute, deliver, file or record any documents or agreements that are deemed reasonable
26 and appropriate to effectuate the terms of the Plan by the Board, without the necessity of any
further Bankruptcy Court or Shareholder approval or action.

4. Post-Confirmation Management and Ownership of RDLLC.

RDLLC will be owned by the new Investor, Debtor and holders of PPL claims that
converted into membership interests. Management of RDLLC will be determined by the
members.

D. Additional Assurances.

1 The Debtor and any party-in-interest holding Claims herein will execute such other
2 documents as are necessary to implement any of the provisions of the Plan.

3 **E. Conditions to Effectiveness of Plan.**

4 **1. Conditions to Effectiveness.**

5 The following are conditions precedent to the effectiveness of the Plan:

6 (a) The Confirmation Date has occurred, and the Confirmation Order is
7 acceptable in form and substance to the Debtor and RDLLC;

8 (b) The Confirmation Order is a Final Order, *except that* the Debtor reserves
9 the right to cause the Effective Date to occur notwithstanding the pendency of an
10 appeal of the Confirmation Order, under circumstances that would moot such appeal;
and

11 (c) No request for revocation of the Confirmation Order under Section 1144
12 of the Bankruptcy Code has been made, or, if made, remains pending.

13 **2. Waiver of Conditions.**

14 The conditions to Confirmation and the Effective Date may be waived in whole or in
15 part by the Debtor at any time upon written notice to the Bankruptcy Court, an order of the
16 Bankruptcy Court, or any further action other than proceeding to Confirmation and
consummation of the Plan.

17 **F. Liquidation Analysis / Cash Requirements.**

18 The proposed Plan provides for payment in full for allowed secured creditor claims and
19 potentially full payment to the other unsecured classes as well as distributions to Shareholders.

20 Pursuant to section 1129(a)(7) of the Bankruptcy Code, for the Plan to be confirmed it
21 must provide that creditors and holders of equity interests will receive at least as much under
22 the Plan as they would receive in a liquidation of the Debtor under Chapter 7 of the Bankruptcy
Code (the "Best Interest Test"). A Liquidation Analysis is attached as **Exhibit G** with a detailed
23 analysis of the estimated recoveries and expenses for a Chapter 7 liquidation.

24 The Best Interest Test with respect to each impaired class requires that each holder of
a claim or equity interest of such class either (a) accepts the Plan or (b) receives or retains under
25 the Plan property of a value, as of the Effective Date, that is not less than the value such holder
would receive or retain if the Debtor had liquidated under Chapter 7 of the Bankruptcy Code.
26 The Bankruptcy Court will determine whether the value received under the Plan by the holders

1 of claims in each class equals or exceeds the value that would be allocated to such holders in
2 liquidation under Chapter 7. The Debtor has ensured that the Plan meets the Best Interest
3 Test by providing for payment of Claims over time from distributions of RDLLC, and by
4 providing for the pursuit of Causes of Action to provide additional value to the Estate. Thus,
the Plan provides value that is not less than the value that would be recovered by each holder
in a proceeding under chapter 7 of the Bankruptcy Code.

5 Counsel for the Debtor has incurred approximately one hundred twelve thousand three
6 hundred sixty-four dollars (\$112,364.00) in fees for professional services rendered to the
7 Debtor and costs incurred through February 28, 2015. With respect to administrative claims,
8 in light of potential disputes related to confirmation, as well as the pending and anticipated
litigation, it is difficult to estimate the additional potential administrative costs to bring this
matter to confirmation.

9 Payment of these amounts, fees due to the United States Trustee and Allowed Claims
10 of Creditors are included in the projections attached to this Disclosure Statement as **Exhibit**
11 **B.**

12 **G. Tax Consequences.**

13 Substantial uncertainties exist with respect to any tax consequences of the Plan to any
14 particular holder of a Claim or Interest. No opinion of counsel has been sought or obtained
15 with respect to any tax consequences of the Plan. Therefore, each holder is strongly urged to
16 consult his, her, or its own tax adviser regarding the United States federal, state, and local and
17 any foreign tax consequences of the transactions described in the Plan. No representations are
being made regarding the particular tax consequences of the Confirmation and consummation
of the Plan to Debtor or any holder of Claims or Interests.

18 In accordance with IRS Circular 230, holders of Claims or Interests are hereby notified
19 that (i) any discussion of federal tax issues contained or referred to in this Disclosure Statement
20 is not intended or written to be used, and cannot be used, by holders of Claims or Interests for
the purpose of avoiding penalties that may be imposed on them under the IRS; (ii) any tax
discussion contained in this Disclosure Statement is prepared in connection with the promotion
21 of the transactions or matters discussed herein; and (iii) holders of Claims or Interests should
22 seek advice based on their particular circumstances from an independent tax adviser.

23 Certain payments by the Debtor may be subject to information reporting to the Internal
24 Revenue Service. Moreover, such reportable payments are subject to backup withholding
25 under certain circumstances. Backup withholding is not an additional tax. Amounts withheld
26 under the backup withholding rules may be credited against a holder's United States federal
income tax liability, and a holder may obtain a refund of any excess amounts withheld under
the backup withholding rules by filing an appropriate claim for refund with the IRS.

1 **H. Alternatives to the Plan.**

2 If the Plan is not confirmed, several different events could occur: (1) a creditor or other
3 party in interest could propose another plan providing different treatment of Claims and
4 Interests; (2) the holder of the ACA Claim could move for relief from the automatic stay to
5 allow it to foreclose its liens against the Debtor's IP Technology, which may be granted by the
6 Court if a plan is not confirmed in a reasonable period of time; and/or (3) the Court, after
7 appropriate notice and hearing, could dismiss the Case or convert the Case to a liquidation case
8 under Chapter 7 if a plan is not confirmed in a reasonable period of time. Notwithstanding
9 anything to the contrary contained herein, the Debtor shall not be bound by estoppel, or the
10 principles of *res judicata* or collateral estoppel, with respect to any term or provision contained
11 herein in the event the Plan is not confirmed upon the terms and provisions set forth herein.

12 **VI. VOTING.**

13 Creditors will receive a Ballot with the approved Disclosure Statement and Plan, on
14 which to vote to accept or reject the Plan. Instructions for completing and returning the Ballot
15 are set forth on the Ballot and should be reviewed carefully and followed. YOUR VOTE IS
16 IMPORTANT. If you do not vote on the Plan, the wishes of other Creditors or interested
17 parties may govern the treatment of your Claims or Interests. The Debtor therefore highly
18 recommends that you participate in the voting process by timely providing your Ballot
19 accepting or rejecting the Plan as in the Ballot accompanying this Disclosure Statement.

20 At a hearing scheduled by the Bankruptcy Court, the Court will consider whether the
21 Plan meets the requirements of Bankruptcy Code § 1129 and, therefore, should be confirmed.
22 THE PLAN CANNOT BE CONFIRMED IF THE PLAN DOES NOT RECEIVE AT
23 LEAST TWO-THIRDS (2/3) IN AMOUNT AND MORE THAN ONE-HALF (1/2) IN
24 NUMBER OF ALLOWED CLAIMS VOTING IN EACH IMPAIRED CLASS, provided,
25 however, if the requisite acceptances are not obtained from one or more Impaired Classes, the
26 Court may nonetheless confirm the Plan pursuant to 11 U.S.C. § 1129(b) if one Impaired Class
accepts the Plan and the Court finds that the Debtor's Plan provides, among other things, fair
and equitable treatment of the Classes rejecting the Plan and that creditors receive as much or
more under the Plan than they would receive in a Chapter 7 liquidation.

27 **VII. CONFIRMATION.**

28 **A. Confirmation by Non-Acceptance Method.**

29 The Debtor hereby requests, if necessary, confirmation of the Plan pursuant to Section
30 1129(b) of the Bankruptcy Code with respect to any impaired Class of Claims that does not
31 vote to accept the Plan.

1 **B. Binding Effect Of Plan.**

2 When confirmed, the provisions of the Plan shall bind the Debtor and any person or
3 entity holding a Claim against the Debtor and its Estate, whether asserted or non-asserted, and
4 any person asserting an interest in the Debtor, whether or not a Claim or Interest of such
5 person or entity arose before or after the Petition Date or the Effective Date, whether or not
6 the Claim or Interest is impaired under the Plan, and whether or not such person or entity has
7 accepted the Plan.

8 **C. Effect Of Confirmation.**

9 Except as otherwise provided herein, the rights afforded in the Plan shall be in exchange
10 for and in complete satisfaction, discharge and release of all claims against the Debtor of any
11 nature whatsoever. All such claims against the Debtor shall be satisfied, discharged and released
12 in full. All holders of claims against the Debtor shall be precluded from asserting against the
13 Debtor, its Estate, or the assets or properties of the Debtor or its Estate any other or further
14 claim based upon any omission, transaction or other activity of any kind or nature that occurred
15 prior to the Effective Date. This discharge shall be effective as to each claim, regardless of
16 whether the claim is listed on the Debtor's Schedules filed in these Chapter 11 proceedings,
17 whether a proof of claim was filed, whether such proof of claim was withdrawn, whether the
18 claim is an Allowed Claim, in whole or in part, or whether the holder of the claim votes to
19 accept or reject the Plan. Upon the Effective Date, all the property of the Debtor except the
20 Causes of Action will vest in RDLIC, which, subject to the obligations set forth in the Plan,
21 may utilize the property free of any burdens of the Bankruptcy Code and without need to obtain
22 Court approval of its actions.

23 **D. Modification Of Plan.**

24 The Plan may be modified in accordance with the provisions of the Bankruptcy Code
25 and Chapter 11 as follows:

26 1. **Pre-Confirmation.**

 In accordance with Section 1127(a) of the Bankruptcy Code, the modification of the
Plan may be proposed in writing by the Proponent at any time before its Confirmation,
provided that the Plan, as thus modified, meets the requirements of Sections 1122 and 1123 of
the Code, and the Debtor complies with Section 1125 of the Code.

 2. **Post-Confirmation.**

 In accordance with Section 1127(b) of the Bankruptcy Code, the Plan also may be
modified at any time after its Confirmation and before its substantial consummation, provided
that the Plan as thus modified meets the requirements of Sections 1122 and 1123 of the Code,
provided further that the circumstances then existing justify such modification, and the Court

1 confirms the Plan as thus modified under Section 1129 of the Code.

2 **3. Objections.**

3 Any holder of a Claim or Interest that has accepted or rejected the Plan will be deemed
4 to have accepted or rejected, as the case may be, the Plan as modified unless, within the time
5 fixed by the Bankruptcy Court for doing so, such holder changes its previous acceptance or
6 rejection.

6 **4. Effect.**

7 Every modification of the Plan will supersede the previous version of the Plan as and
8 whenever each modification is effective. When superseded, the previous version of the Plan
9 will be in the nature of a withdrawn or rejected settlement proposal and will be null, void and
10 unusable by the Debtor or any other party for any purposes whatsoever with respect to any of
11 the contents of such version of the Plan.

11 **E. Withdrawal of Plan.**

12 The Plan may be withdrawn or revoked by the Debtor at any time before entry of the
13 Confirmation Order.

14 **VIII. RETENTION OF JURISDICTION.**

15 Notwithstanding Confirmation of the Plan, the Bankruptcy Court shall retain
16 jurisdiction for all matters arising out of, or related to, the Chapter 11 Case and the Plan,
17 including, but not limited to, all of the following:

18 **A. In General.**

19 The Court shall retain jurisdiction to determine the allowance and payment of any
20 Claims upon any objection thereto (or other appropriate proceedings) by the Debtor or
21 RDLLC, or by any other party in interest entitled to proceed in that manner. As part of such
22 retained jurisdiction, the Court shall continue to determine the allowance of Administrative
23 Claims and any request(s) for payment(s) thereof, including Chapter 11 Professional Fees and
24 costs which are Administrative Claims.

23 **B. Sales.**

24 The Court shall retain jurisdiction to adjudicate and determine any issues that arise out
25 of or relate to a sale of any Assets of the Debtor.

26 **C. Financing.**

1 The Court shall retain jurisdiction to adjudicate and determine any issues that arise out
2 of or relate to any and all motions made pursuant to § 363 of the Bankruptcy Code.

3 **D. Plan Disputes.**

4 The Court shall retain jurisdiction to determine any disputes, which may arise regarding
5 the interpretation of any provisions of the Plan.

6 **E. Further Orders.**

7 The Court shall retain jurisdiction to facilitate the consummation of the Plan by entering,
8 consistent with the provisions of the Plan, any further necessary or appropriate order(s)
9 regarding the enforcement of the Plan and any provision(s) thereof.

10 **F. Other Claims.**

11 The Court shall retain jurisdiction to adjudicate any causes of action or other
12 proceedings presently pending or otherwise referenced here or elsewhere in the Plan, including,
13 but not limited to any action regarding the initiation, prosecution, enforcement, compromise
14 or settlement of the Causes of Action in the Debtor's Estate, and the adjudication of any and
15 all "core proceedings" under 28 U.S.C. §157(b) which may be pertinent to the Chapter 11 Case.

16 **G. Enforcement of Plan.**

17 The Court shall retain jurisdiction to enforce any provisions of the Plan and any and all
18 documents relating to the Plan, including, but not limited to, the conduct of sales pursuant to
19 11 U.S.C. §§ 363(f) or (h) and the approval of any borrowing by the Debtor, if required by any
20 lender.

21 **H. Appeals.**

22 In the event of any appeal of the Confirmation Order, and provided that no stay of the
23 effectiveness of such Confirmation Order has been entered, the Court shall retain jurisdiction
24 to implement and enforce the Confirmation Order and the Plan according to their terms,
25 including, but not limited to, jurisdiction to enter such orders regarding disbursements under
26 the Plan or the consummation thereof as may be necessary to effectuate the terms of the Plan.

I. Tax Issues.

The Court shall retain jurisdiction to adjudicate and determine any issues that relate to
this Chapter 11 Case and any governmental unit's claim with respect to any tax or any fine,
interest or penalty relating to a tax.

J. Unexpired Leases and Other Executory Contracts.

1 The Court shall retain jurisdiction to determine any and all Claims arising from rejection
2 of unexpired leases and other Executory Contracts.

3 **K. Settlement Agreement Disputes.**

4 The Court will retain jurisdiction to determine any dispute which may arise regarding
5 the enforcement of any settlement or compromise related to the Debtor's Chapter 11 Case.

6 **L. Professional Fees and Costs.**

7 The Court will retain jurisdiction to determine any and all issues that relate to the
8 payment of Debtor's Professionals in the Debtor's Chapter 11 Case. Any professional fees
9 incurred by the Debtor's Professionals after the Confirmation Date shall be payable in the
10 ordinary course of the Debtor's and RDLLC's business without the need to seek or obtain
11 Bankruptcy Court approval.

12 **M. Closing of Case.**

13 This Chapter 11 Case shall be deemed closed upon entry of a final decree closing the
14 case.

15 **IX. CLAIMS ADJUDICATION AND DISTRIBUTION.**

16 **A. Preservation of Debtor's Claims, Demands, and Causes of Action.**

17 In accordance with Bankruptcy Code Section 1123(b)(3), all of the Debtor's claims and
18 causes of action will survive the entry of the Confirmation Order and the Effective Date; they
19 will not be discharged by the Plan; and they will become and remain assets of the Debtor after
20 the Effective Date.

21 **B. Procedure for Determination of Claims.**

22 **1. Objections to Claims.**

23 Except as to any Claim that has been Allowed prior to the Effective Date, no later than
24 the last Business Day prior to the Effective Date, the Debtor or any party in interest may object
25 to the allowance of any Claim against the Debtor or seek estimation thereof on any Claim
26 (including any Claim amounts stated in the Plan).

2. Disputed Claims.

No payments or other distributions will be made to holders of Claims unless and until
such Claims are Allowed Claims pursuant to a Final Order. If a Claim is not an Allowed Claim
by or on the Effective Date or when payment is otherwise due under the Plan, payment of the

1 Allowed Claim will be made when a Claim becomes an Allowed Claim after the Effective Date
2 or as otherwise specifically provided in the Plan.

3 **3. Treatment of Contingent Claims.**

4 Until such time as a contingent Claim or a contingent portion of an Allowed Claim
5 becomes fixed or absolute or is Disallowed, such Claim will be treated as a Disputed Claim for
6 all purposes related to distributions under the Plan. The holder of a contingent Claim will only
7 be entitled to a distribution under the Plan when and if such contingent Claim becomes an
8 Allowed Claim.

9 **4. Administrative Claims Bar Date.**

10 Administrative expense proofs of claim requesting payment of administrative costs and
11 expenses incurred prior to the Effective Date pursuant to Sections 507(a)(1) and 503(b) of the
12 Bankruptcy Code (except for Debtor's Professionals employed pursuant to Section 327 of the
13 Bankruptcy Code) must be served and filed with the Bankruptcy Court no later than thirty (30)
14 days after the Effective Date; provided, however, that proofs of claim will not be required with
15 respect to any unpaid post-petition operating expenses incurred in the normal course of the
16 Debtor's business prior to the Effective Date. Any such Claim that is not served and filed
17 within this time period will be forever barred. Any Claims for fees, costs, and expenses incurred
18 by any Debtor's Professionals after the Confirmation Date will be paid in the ordinary course.

19 **C. Distributions.**

20 **1. Delivery of Distributions.**

21 Subject to Bankruptcy Rule 9010, distributions and deliveries to each holder of an
22 Allowed Claim will be made at the address of such holder as set forth on the respective Proof
23 of Claim (or at the last known address of such holder if no Proof of Claim is filed or if the
24 Debtor has been notified of a change of address) as of the last Business Day prior to the
25 Effective Date. If any holder's distribution is returned as undeliverable, no further distribution
26 to such holder will be made unless and until the Debtor is notified of such holder's then current
address, at which time all missed distributions will be made to such holder without interest.
The Debtor will be under no obligation to attempt to locate the holder of any Allowed Claim
or to recognize any purported transfer or encumbrance on the rights of holders of Allowed
Claims after the Confirmation Date. Amounts of undeliverable distributions attempted by the
Debtor will be retained by the Debtor until such distributions are claimed or become unclaimed
property. All Claims for undeliverable distributions will be made on or before sixty (60) days
following the third anniversary of the Effective Date. After such date, all unclaimed property
will revert to the Debtor for additional distributions.

2. Means and Timing of Payment.

1 Payments made to holders of Allowed Claims pursuant to the Plan will be in United
2 States dollars by checks drawn on the domestic bank selected by the Debtor, or by wire transfer
3 from a domestic bank, at the option of the Debtor. If any payment date falls due on any day
4 that is not a Business Day, then such due date will be extended to the next Business Day.

5 **3. Prohibition Against Prepayment Penalties.**

6 If the Debtor so chooses, in its sole and absolute discretion, to prepay any obligation
7 on which deferred payments are provided for under the Plan, the Debtor will not be liable or
8 subject to the assessment of any prepayment penalty thereon unless otherwise ordered by the
9 Bankruptcy Court.

10 **4. Fractional Dollars.**

11 Notwithstanding any other provision of the Plan, no payments or distributions under
12 the Plan of or on account of fractions of dollars will be made. When any payment or
13 distribution of or on account of a fraction of a dollar to any holder of an Allowed Claim would
14 otherwise be required, the actual payment or distribution made will reflect a rounding up of
15 such fraction to the nearest whole number.

16 **5. De Minimis Cash Distributions.**

17 No Cash payment of less than ten dollars (\$10.00) will be made to any holder of an
18 Allowed Claim unless a request for such payment is made in writing to the Debtor.

19 **X. GENERAL PROVISIONS**

20 **A. Notices.**

21 Any notice required or permitted to be provided under the Plan will be in writing and
22 served by regular postage prepaid first-class mail, hand-delivery, facsimile, or e-mail.

23 **B. General Injunction.**

24 Except as otherwise expressly provided in the Plan, the Confirmation Order shall
25 provide, among other things, that all parties-in-interest who have held, hold, or may hold Claims
26 are permanently enjoined on and after the Effective Date from: (a) commencing or continuing
in any manner any action or other proceeding of any kind with respect to any such Claim against
the Debtor, RDLLC or any successor-in-interest of the Debtor, against property of the Debtor,
or against property of any successor-in-interest of the Debtor or RDLLC; (b) the enforcement,
attachment, collection, or recovery by any manner or means of any judgment, award, decree,
or order against the Debtor, RDLLC or any successor-in-interest of the Debtor, property of
the Debtor, or against property of any successor-in-interest of the Debtor or RDLLC with
respect to any such Claim; (c) creating, perfecting, or enforcing any encumbrance of any kind

1 against the Debtor, RDLLC or any successor-in-interest of the Debtor, against property of the
2 Debtor, or against property of any successor-in-interest of the Debtor or RDLLC with respect
3 to any such Claim; (d) asserting any setoff, right of subrogation, or recoupment of any kind
4 against any obligation due the Debtor, RDLLC or any successor-in-interest of the Debtor or
5 RDLLC, against property of the Debtor or RDLLC, or against property of any successor-in-
6 interest of the Debtor or RDLLC, with respect to any such Claim; (e) conducting any form of
7 discovery from the Debtor or RDLLC with respect to any such Claim, or any successor-in-
8 interest of the Debtor or RDLLC; (f) harassing the Debtor, RDLLC or any successor-in-
9 interest of the Debtor; and/or (g) asserting any claim for or assessing any form of penalty,
excise tax, and/or late fee on the Debtor or RDLLC with respect to such Claim as long as the
Debtor is in compliance with the terms of the Plan as they relate to such Claim. Nothing in
this paragraph is intended to preclude any person or entity who is sued by the Debtor or
RDLLC from asserting any defenses, including, without limitation, any setoff, right of
subrogation, or recoupment of any kind.

10 **C. Interest.**

11 Whenever interest is to be computed under the Plan, interest will be simple interest and
12 not compounded. Unless otherwise specifically provided for in the Plan or the Confirmation
13 Order, post-petition interest shall not accrue or be paid on Claims, and no holder of a Claim
will be entitled to interest accruing on or after the applicable Petition Date on any Claim.

14 **D. Vesting.**

15 As of the Effective Date of the Plan, all of the assets of the Estate excluding Causes of
16 Action and any personal property subject to the lien of the Class 3 Debenture Holders that is
17 not acquired by RDLLC, shall be transferred to RDLLC. All assets transferred to RDLLC shall
18 be free and clear of all liens, claims, and interest of creditors and parties-in-interest, except as
specifically provided in the Plan.

19 **E. Successors and Assigns.**

20 The rights and obligations of any Creditor or other party-in-interest referred to in the
21 Plan will be binding upon, and will inure to the benefit of, the successors, assigns, heirs,
22 devisees, executors, and personal representatives of such Creditor or party-in-interest.

23 **F. Severability and Reformation.**

24 It is the intention of Debtor to comply fully with the Bankruptcy Code and applicable
25 non-bankruptcy law in proposing the Plan. Therefore, if any provision of the Plan is
26 determined by the Bankruptcy Court to be contrary to the Bankruptcy Code or applicable non-
bankruptcy law, that provision will be deemed severed and automatically deleted from the Plan,
if it cannot be reformed or the provision or its interpretation will be deemed reformed to ensure
compliance; provided, however, that nothing contained in this paragraph will prevent the

Debtor from modifying the Plan in any manner whatsoever in accordance with and as set forth in the Plan. Pursuant to any ruling by the Bankruptcy Court regarding the subject matter of this paragraph, any such severance or reformation will be stated specifically in the Confirmation Order, which then will control notwithstanding any contrary or inconsistent provisions of the Plan.

G. Payment of Statutory Fees and Filing of Quarterly Reports.

All fees payable pursuant to 28 U.S.C. § 1980, as determined by the Bankruptcy Court at or in conjunction with the Confirmation Hearing, will be paid on or before the Effective Date and, thereafter, in accordance with applicable bankruptcy law. All quarterly reports of disbursements required to be filed by applicable bankruptcy law will be filed in accordance with applicable bankruptcy law.

H. Governing Law.

Except to the extent that the Bankruptcy Code is applicable, the rights and obligations arising under the Plan shall be governed by, construed, and enforced in accordance with, and subject to, the laws of the State of Arizona, excluding any laws that result in the application of the laws of another jurisdiction.

I. Special Tax Issues.

The issuance, transfer, or exchange of a security as defined under the Bankruptcy Code or applicable law, or the making or delivery of any instrument of transfer under the Plan, shall not be taxed under any state or local law imposing a stamp tax or similar tax as provided in Section 1146 of the Bankruptcy Code.

J. Conflicts between Plan and Confirmation Order.

In the event the terms of the Plan and the Confirmation Order conflict, the terms of the Confirmation Order shall govern.

XI. RECOMMENDATION OF DEBTOR.

The Debtor believes that the Plan provides the best available alternative for maximizing the recoveries that Creditors and Shareholders will receive from Debtor's assets. Therefore, the Debtor recommends that all creditors and Interest holders who are entitled to vote on the Plan vote to accept the Plan.

[SIGNATURE PAGE FOLLOWS]

1 DATED this 7th day of July, 2015.

2 CLEAR ENERGY SYSTEMS, INC.,
3 a Nevada corporation

4 By /s/ Daniel McCauley

5 Daniel McCauley
6 Its Chairman of the Board

7
8 **FREEMAN HUBER LAW PLLC**

9 By /s/ Shelton L. Freeman

10 Shelton L. Freeman
11 Attorney for Clear Energy Systems, Inc.

12 ORIGINAL filed via the CM/ECF
13 Electronic Notification System and served to
14 all parties that have requested ECF
15 notification in the Bankruptcy Case.

16 COPIES of the foregoing served the 7th day
17 of July, 2015 via email on all requisite parties
18 in accordance with Bankruptcy Rule 2002.

19 By: /s/ Rachel H. Milazzo

LIST OF EXHIBITS

- A. Plan of Reorganization
- B. Production Costs and Funding Timeline
- C. Projected Sales in North America
- D. List of Debenture Holders
- E. List of Bridge Lenders
- F. Board of Directors
- G. Liquidation Analysis